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Market Information

By
Byron W. Holt
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UNIVERSITY OF CALIFORNIA
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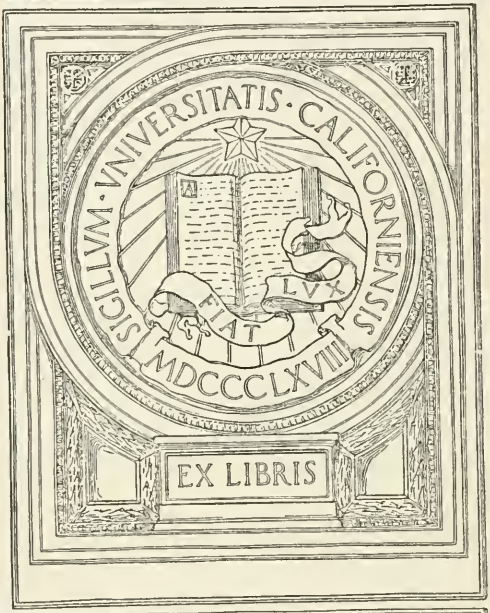

GIFT OF
Dr. and Mrs. A.B. Pierce

Market Information

By

BYRON W. HOLT, A.B.

Manager of Investment Department, Goodbody & Co. Editor of Moody's Magazine, 1905–08. Manager of Investment Department, Warren W. Erwin & Co., 1908–17.

AND

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BOSTON

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"COMPLETE EDUCATIONAL COURSE"

IN THE SCIENCE OF

MAKING MONEY MAKE MORE MONEY

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15. *Money and Credit*
16. *Business Profits*
17. *Launching a New Enterprise*
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19. *Internal Financial Management*
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CHAPTER I

THE BASIS OF FORESIGHT

"Risk is nothing but an expression of ignorance, which decreases as we make progress in lifting the veil that hides the future."

—IRVING FISHER, Prof. of Economics, Yale University.

Two Important Questions

The point has now been reached where, having inquired into the forces which make prices and the securities upon which these forces operate, it is essential to find out how we personally can secure *information* bearing upon these two essentials, viz., market forces and individual securities. The market moves as far ahead as the shrewdest operators, possessed of the most accurate, early, and complete information available, can see; and when events have become common knowledge usually their influence has already had its effect upon prices. In other words, they have been discounted. Thus the problem of market information must be approached in a forward-looking way.

How can we secure *accurate* information *earlier* than others?

How can we reap the most profits from this advantage?

These are important questions, to which consideration will now be given.

A Market not Often Surprised

The eagerness with which information is sought in Wall Street impresses even the outsider as a thing characteristic of the financial district. "What's the news?" is a common form of greeting when one operator meets another casually. These Wall Street men are out on the fringe of things, trying to see

what lies ahead; hence their interest in news and their strenuous endeavor to secure it. Under no other system have the facilities for securing early and accurate information been so perfected as in the financial centers where organized speculation is carried on.

Wall Street may be caught napping, but not very often.

N. Y. *Tribune*

Pull Your Chair Right up to the Table, Sonny.

A Sudden Reversal of Trend

The announcement late in 1917, during the slump that the Government was to guarantee the railroads their pre-war earnings, appeared in the morning papers, December 27. It produced an emphatic change of front among railroad shares.

The unusualness of the price changes cited below is a tribute to the accuracy with which events in general are forecasted, and their effects discounted. Market operators are seldom caught napping.

	Wednesday Closing	Thursday Opening	Gain
Atchison	78	87½	9½
Baltimore & Ohio	39¾	55	15¼
St. Paul Preferred	63¼	81	17¾
Northern Pacific	75¾	85	9¼
Southern Pacific	77¾	84	6¼
Union Pacific	103¾	112	8¼

The Subscriber's News Problem

What does this mean to the subscriber? Supplied with the most accurate and early information upon present events and

past events feasible for him to obtain, his mind then deduces its conclusions as to what later will take place. The more correct these conclusions the greater his percentage of profits. The importance of sound information requires no further comment than this.

Nevertheless, in this Text, we by no means want the subscriber to forget that always the most important factor is the ability to analyze, differentiate, and deduce correctly. This is our basic reason for this entire Educational Course — knowing as we do that to sift the mass of facts and opinions found in Wall Street requires the clearest thinking and most careful consideration. In this Text, we assist you, as far as possible, in the first essential, the study of the use and abuse of financial news items, in fact of financial literature of all types.

CHAPTER II

THE SOURCES OF MARKET NEWS

Wall Street's News System

Those who deal in securities can organize their own means of securing news, should they see fit, as certain of the larger operators and concerns do to some extent. But specialists have come into this field, whose results are so superior that, as a rule, the average trader recognizes that competition with them, each man for himself, would be futile. It is with these results of the news specialists, those who go to make up what may be termed Wall Street's news organization, that we are here concerned.

News may be divided into three classes, the first having to do with *fundamental conditions* determining the movement of the market as a whole, the second having to do with *particular industries* such as copper, steel, rubber, etc., the third concerning *individual companies.*

These classes intermingle and vary in each instance but a rough general division of a few of the items making up "news" may be made:

Fundamental Conditions	Particular Industries	Individual Companies
Domestic Trade	Supply and Demand	Earnings
Crop Reports	Prices	Assets
Business Conditions	Costs	Dividends
Labor Conditions	New Markets	Acquisitions
Bank Statements	New Uses	New Financing
Bank Clearings	Substitutes	Readjustments
Interest Rates	Discoveries	Reorganizations
Price Indices	Inventions	Management
Stock and Bond Transactions	Legislation	
Stock and Bond Prices		
Real Estate News		
Foreign Trade		
Foreign Exchange		
Domestic Politics		
Foreign Politics		
Legislation		

Chief Sources of News

We shall examine first the chief sources of these news items and then look into the way they are made available.

The chief sources of these items are:

General Conditions

- Government Reports
  - Crop Weekly
  - Crop Monthly
  - Weather Daily
  - Bureau Reports
  - Departmental
  - Committee
  - Treasury
  - Monthly Summary of Foreign Commerce
  - Consular
- Commercial Agency Reports
- Bank Statements
- Clearing House Reports
- Stock and Bond Markets
- State Legislatures
- Congress
- Supreme Court Decisions
- Foreign Legislative and Executive Bodies
- Rumors

Particular Industries

- Trade Journals
- Investigations
  - Government
  - Private
- Supreme Court Decisions
- Rumors
- Interstate Commerce Commission
- Public Service Commission

Individual Companies

- Annual Reports
- Interim Reports
- Directors' Meetings
- Original Documents
  - Charters
  - By-Laws

Individual Companies

Original Documents (*continued*)
- Mortgages
- Leases
- Listing Notices
- Reorganization Plans, etc.

Official Statements

Supreme Court Decisions

Rumors

Government Reports

These reports are summaries of the activities of the various departments. As a result of the government's varied facilities and ability to get at facts kept from the ordinary investigator they are usually comprehensive and generally regarded as most reliable. They are released from Washington, either by wire at a certain hour, mailed to the various newspapers for publication on a certain date, or otherwise published.

Crop and Weather Reports give details as to acreage planted, condition of the various crops as of a certain date, and present weather conditions. They cover winter wheat, spring wheat, corn, cotton, rye, barley, etc. They are important not only to speculators in the various commodities, but to all business men, as they are indicators of future food supply, railroad traffic, and rural prosperity.

Bureau and Departmental Reports are usually issued annually by the Secretary of the department of the bureau head. Among the most important are those of the Secretary of Commerce, the Secretary of Agriculture, the Secretary of Labor, and the Secretary of the Treasury. The United States Geological Survey of the Interior Department also issues a comprehensive annual report covering metals and non-metals. The Treasurer of the United States publishes reports once or twice a year covering the circulating media and the condition of the National Banks. These reports are usually out of date by the time they are made public but make a dependable basis for comparison with present conditions. The Federal Reserve Bulletin, which is published monthly, covers the condition of the Federal Reserve Banks,

member banks, the state of trade in the various reserve districts, and various other important subjects.

The Department of Commerce publishes Daily and Weekly Reports summarizing reports of trade and consular agents in regard to conditions in all parts of the world.

Investigations

The investigation purports to be a serious and somewhat penetrating attempt to get at the facts.

The reports submitted by accountants, appraisers, engineers, and other technical experts belong to this class, particularly when prepared by persons of high standing professionally.

The Government occasionally conducts investigations, not infrequently of an inquisitorial nature. During the War the Federal Trade Commission made many investigations to determine fair prices, supply, demand, etc. Among the industries covered were *paper*, *rubber*, and *meat packing*. Nowhere can more accurate or more complete information in regard to the industries touched be found than in these reports. The Royal Ontario Nickel Commission has published a most interesting report on the world's production and use of nickel. The State of New York has put out a report on the water power of the state. Banks, bond houses, and brokerage offices frequently make studies of corporations, although their work as a rule lies not so much in investigation as in interpretation.

The investigator more times than not does not rest content with presenting the facts, but proceeds to attach his opinions marketwise. He then has assumed the role of analyst, and what he says, as we shall point out later, must be examined critically.

Original Documents

Original documents in the sense here used are first-hand evidence of certain important events in a corporation's history.

These documents comprise charters, by-laws, franchises, leases, mortgages, "pooling" agreements, reorganization plans,

etc. The description of property and of particular bond issues should be made only upon examination of these original sources.

The use of secondary authorities, instead of these original documents, is unfortunately very common. The syndicate prepares its announcements with these documents before it, selecting therefrom such items as meet its needs, but those who pass along blocks of the issue in the process of retailing prepare their circulars from information furnished them, until finally, even when each dealer has been of honest intent, an investor receives from some dealer five or six steps removed from the syndicate a circular into which various discrepancies have crept.

Official Reports

The tendency toward corporation publicity, which has grown to an extent which only an old-timer can appreciate, results in the publication of data each year that persons formerly were obliged to guess at.

These reports include items such as gross earnings, net earnings, appraisals of plants and machinery, dividends declared, and balance carried to surplus. Very commonly such reports are mailed to stockholders and distributed to the press.

Listing Statements made to the New York Stock Exchange are perhaps the most reliable of all company reports. Before the stocks or bonds of any corporation are admitted to trading, a sworn statement must be made to the board of governors of the exchange covering assets, recent earnings, the sections of the by-laws dealing with the issue in question, control of the company, directors, etc. These statements are published by the Stock Exchange when the securities are admitted to the list.

Stock and Bond Quotations

Most people do not look upon security quotations in the light of information valuable to them in their commitments; in fact, how many people with considerable experience in the market, if asked to name the various sources of information would include *quotations* in the list? Of course, they look *at* them, but

when it comes to looking *into* them, analyzing them, comparing them, drawing profitable suggestions from them, they have never thought of that.

This attitude is wrong since considerable use can be made of these quotations marketwise. There is much truth in the view that the proper subject of study in the market is the *market* itself.

Rumors

There can scarcely be anything more characteristic of Wall Street than its never-ending crop of rumors. They often are puzzling to deal with but, since their effect upon the market year in and year out is decidedly important, they should be examined into. The "peace leak" which aroused wide publicity and exerted a strong influence upon the market in December, 1916, will serve the purpose of a useful example.

The afternoon of December 20, 1916, at 2:05, this item appeared upon the news ticker:

> The renewed selling of the market is due to reports received by brokers' private wires from Washington to the effect that the administration will in the near future address to the belligerants some suggestion or proposals in regard to peace. Nothing definite is obtainable in administration circles.

The market had held a fairly steady course during the forenoon, with U. S. Steel fluctuating round 112. But about one o'clock selling pressure developed, which shortly forced Steel below 111; and throughout the rest of the day it was a matter of big blocks and lower prices. Steel closed at 108, off four points for the day. The next morning the newspapers featured a "peace note" addressed to all the belligerent powers by President Wilson. As at that time, war was a bull argument, the market opened in panicky condition. Under a volume of trading which was the second largest on record, 3,176,800 shares, prices were slaughtered. Steel closed at 101, off seven points. Those who sold short the day before made a "killing".

It appeared that there had been a "leak". The sensational Lawson charged a member of the Cabinet, a U. S. Senator and

a banker with having operated upon their advance information and others claimed the President's Secretary and the German Ambassador were also in on the deal. Congress decided upon an investigation.

What the Leak Was

It transpired that at eleven o'clock on the morning of December 20, Secretary Lansing had informed newspaper reporters *in strict confidence* that he would have an important communication for them at five. He added that this communication had been sent to all belligerent nations, but that it did not contain proposals for peace nor an offer of mediation. Within an hour Wm. W. Price, a reporter stationed at the White House, who had arranged to supply certain brokers with information likely to affect the market, his fee being $25 per month per broker, had heard of this communication from some of those present. Under an assumed name, he dispatched his interpretation of it to a Chicago broker:

Finlay, Barrel & Company:

Am informed that State Department contemplates making public late this afternoon important statement bearing on economic situation of the European war as affecting neutrals, object being to indirectly promote peace prospects through bringing neutrals closer together.

J. Fred Essary, the Washington correspondent of the Baltimore *Sun*, hearing of the note, telegraphed to New York:

E. F. Hutton & Company:

I am informed that a highly important message to all belligerents and neutrals has been issued from Washington, interpreted not as pressure on belligerents in behalf of peace but as an opportunity to put American demands on record, to be considered, if there is peace, and warning that neutral rights must not be further encroached upon. Full text to be given out tonight and will be looked on as a move of great moment.

The brokers who received these messages promptly passed them along to their correspondents and when within a short time Dow-Jones printed the item upon their ticker service, the rumor was pretty thoroughly out. The next morning it was no longer rumor but fact.

The Prelude to Fact

These advance inklings of things which later do transpire are very common in Wall Street. The big operator, it is true, would like to carry out to the letter Daniel Drew's dictum, "Never tell nobody what yer goin' to do, till you do it"; but this is not always feasible. Conferences are commonly required; papers have to be drawn and records kept; lawyers, clerks, stenographers, printers, messengers, telephone and telegraph operators have to a certain extent to be taken into confidence. All of these persons are human and certain of them most inquisitive, particularly when they are approached by a seeker of news who offers various inducements to obtain what he wants. The more prominent and successful the operator, the more there are who spy upon him and try to follow his every move.

Very few important deals go far until it commences to be rumored around the Street that "something is up".

Upon hearing of these rumors, operators attempt, often with marvelous skill, to deduce from the rumors' shadowy fragments a tolerably accurate forecast. The attempt is worth while since much of Wall Street's authentic news first passes current as unconfirmed rumor.

Rumor Mongering

The rumor which is a prelude to fact and the rumor spun wholly from some fertile brain are two different things, however. Unfortunately, Wall Street is even more full of the latter than the former.

Very frequently these never-to-be confirmed rumors originate in the attempt to explain the market's action. The market is going up; no one knows why. Numerous brokers on the floor are called to their telephones to account for the move; they cannot *at first*. Then springs up as though by magic a rumor in full bloom. "The Interstate Commerce Commission has granted a fifteen percent increase in rates." The brokers call their offices, the 'phone clerks read in loud tones the message in their customers' rooms, it is wired to hundreds of branch houses — all

these persons supposedly labeling it as rumor although as it passes from hand to hand this label not infrequently becomes lost. The papers next morning are silent upon the Interstate Commerce Commission, and the rumor, having served its turn, dies a natural death. Wall Street must have reasons, even if it has to invent them.

The inventor of this rumor, however, what of him? Was he simply a harassed broker offering snap judgment upon the cause of the rise; or was he an operator, more adroit than scrupulous, wanting to get rid of his long stock or put out some shorts a point or two higher?

The Governors of the Stock Exchange have at different times attempted to stamp out the circulation of sensational and misleading rumors, their latest pronouncements being "that circulation in any manner of rumors of a sensational character by members of the Exchange or their firms will be deemed a detriment to the interest and welfare of the Exchange. Further, that all members of the Exchange shall report to the secretary of the Exchange any information which comes to their notice as to the circulation of such rumors, and all houses having correspondents with whom they have private wire connections shall obtain and report to the secretary of the Exchange any information as to such rumors that come to the attention of their correspondents."

The Governors, we sincerely trust, will decrease the volume of rumors at the same time they improve the quality; but even Governors of the Exchange can scarcely expect to bring about a cessation of them.

Analyses and Write-Ups

What do all these facts and rumors mean? Will stocks go up or down? These are questions which the average man — confronted with material piled so high before him that to read it all would consume his entire time and in the end likely leave him so confused he could scarcely tell whether U. S. Steel makes rails or locomotives or molasses — asks before he goes very far. What he really wants is that some one will save him the work of *digesting* this information.

The analyst, or trained student of the market, does this *really*. He works through current materials, original documents, official reports, rumors and other sources of information; compares, classifies, rejects and selects; until finally the gist of his effort becomes available as the basis for a market forecast. He has no personal interest in the outcome, save that it enables his readers to reach correct conclusions and thereby profit in their market ventures.

The person responsible for write-ups *supposedly* goes through the same careful process of reaching conclusions. His write-up, however, is not based upon the same serious effort nor is it inspired by the same disinterested motive. Usually it represents opinion merely, without the slightest of foundation, and often its purpose is deliberately to deceive.

In view of the high degree of skill required and the laborious process involved in reaching sound conclusions, students of the market worthy to be termed analysts are very few. By similar token, the conclusions stated by them have a high value.

CHAPTER III

THE DISTRIBUTION OF MARKET NEWS

Channels of Distribution

Now that we have surveyed the sources of information, let us consider the news channels through which this information reaches the millions of persons interested in the market.

These channels are in the main seven, each of which dips into the common reservoir called news, selects that which it prefers, works it up in whatever way it sees fit, and lays the results before its readers:

I. Stock and News Tickers
II. News Slips
III. Dai y Papers
IV. Weekly and Monthly Periodicals
V. Card Systems
VI. Statistical Manuals
VII. Market Letters

I. Stock and News Tickers

The operation of the stock quotation ticker was described in Text I, hence this channel of distribution need not be discussed again at this point.

The news ticker operates in practically the same way as the stock ticker, save that it prints reading matter upon paper several inches wide. In the news bureaus' headquarters, an operator spells out the messages upon a keyboard which has electric connection with machines installed in the offices of the leading brokers in New York and elsewhere.

The two competing companies which supply news ticker service, the New York News Bureau and Dow-Jones and Company,

have built up news gathering staffs of decided proficiency. They have reporters hovering on the trail of practically all important events which are pending marketwise, and these men keep turning into headquarters throughout the day a pretty steady stream of news. This information is edited, and put upon the ticker.

These news tickers are the most rapid of the various channels of distribution.

II. News Slips

The tickers, even though they operate continuously during the market day, cannot print the news with the completeness desired in a big financial center. Hence they are supplemented by the news slip.

These news slips are printed upon sheets approximately five by ten inches in size, and are distributed by messenger upon a half hour schedule from nine to three. While they contain much more information than the news ticker and are delivered with such speed that the ink scarcely is dry, the service necessarily is less rapid than the ticker.

The relative fullness of their information, however, renders their use general in banks and brokerage offices in New York, Boston, and Philadelphia, the three cities in which the service now is available.

III. Daily Papers

Daily papers devote themselves in a few cases exclusively to financial matters, though usually they confine their market news to the financial page, with various supplementary items appearing elsewhere in the paper.

The general practice of dailies is to place the financial page under the charge of a financial editor and his assistants. Outside men, that is, the paper's financial reporters, cover the curb market, banks, custom house, clearing house, brokerage offices, etc. They run down rumors and interview, or attempt to interview, almost everybody whom their scent for news reveals as worth seeing.

The financial editor reserves for himself what by common consent is regarded as the most difficult task, the description and analysis of the day's market. These financial editorials cover money and exchange rates, the outlook for tax reductions, railroad earnings, or whatever the editor believes necessary to explain the situation.

The paper also has its clerks who prepare statistical matter and a "morgue" from whose files can be drawn data concerning a wide range of subjects and securities.

The work itself must be done with rapidity since Wall Street people in large number insist upon leaving for home shortly after three o'clock with the special market edition under their arms; and the morning edition even, must contain news appearing up to within a brief time before going to press. Under these conditions, the scope of the topics covered, of which the following list from the New York *Times*' financial page can be taken as typical of the better papers, and the soundness of the material presented renders the accomplishment all the more praiseworthy.

Stock Market Review
Stock Prices and Transactions, N. Y. Stock Exchange
Stock Prices and Transactions, Consolidated Exchange
Stock Prices and Transactions, N. Y. Curb Market
Bond Prices and Transactions, N. Y. Stock Exchange
Average Prices, Rails, Industrials, and Bonds
Short Term Notes, Prices and Yields
Bid and Asked Quotations, Inactive Issues
Equipment Bonds, Maturities and Yields
Munition, Tobacco, and Standard Oil Stock Quotations
Out-of-Town Exchange Transactions
Govenment Bonds, Bid and Ask Prices
New York City Bonds, Bid and Ask Prices
Dividends Declared
Earnings Statements
Financial Notes
Metal Market Report
Topics in Wall Street
Money and Exchange
London Market Review
Paris Market Review
U. S. Treasury Statement
Commodity Prices and Reviews

This financial "page" covers two pages and part of a third, and its list of topics makes up quite a formidable array.

Much of the information has been drawn from the ticker and news slips service. Dow-Jones and Company, and the New York News Bureau in the completeness and accuracy with which they cover events serve the financial editors of newspapers much the same as an Associated Press.

IV. Weekly and Monthly Periodicals

Periodicals which appear less frequently than the daily papers lack timeliness, it is true, yet they have a field of distinct usefulness, notwithstanding. These periodicals range from general publications which treat finance incidentally to magazines definitely specialized upon this one subject.

Iron Age, *The Drygoods Economist*, *The Oil, Paint and Drug Reporter*, *Bradstreet's* and *Dun's Review* may be cited as excellent magazines of more general interest; and the *Commercial and Financial Chronicle*, *The Magazine of Wall Street*, *The Annalist*, *The Financial World*, *Forbes' Magazine* and *Commerce and Finance* as periodicals treating finance in a more specialized way.

V. Card Systems

The card systems are a means of classifying data so it can be gotten at easily. The company which prepares these cards, the Standard Statistics Company, New York City, maintains well-equipped statistical laboratories, and the considerable mass of data which they draw from the sources above mentioned is sorted according to particular corporations, as U. S. Steel, Atchison, American Beet Sugar, etc.

The information which pertains to a given corporation is then edited and printed upon a card size five by eight. These cards are filed alphabetically in a small case, which renders them easily accessible. The information is kept up-to-date by the daily preparation of new pages, which are printed as changes worthy of note occur.

VI. Statistical Manuals

These Manuals include information less timely but prepared with a comprehensiveness and thoroughness which renders it most useful for purposes of reference.

The task of preparing one of these bulky volumes — the securing of data from thousands of corporations, classifying it, and rating the various securities — constitutes a formidable undertaking. The speed and accuracy with which the work is done and the sound judgment shown in the ratings, are highly commendable.

VII. Market Letters

Banks, bond houses, brokers, market observers, and "tipsters" in considerable number issue comments upon the market. These comments, usually referred to as market letters, will be considered more in detail later.

These are the chief channels through which market information is distributed. What is its value? How can it be used with profit? These are worth-while questions to the man whom an over-abundance of data and contrary advices are likely to confuse and who cares little for it after all save to secure profits in the market. We shall now turn to the consideration of these questions.

CHAPTER IV

"WHO SAYS IT AND WHY?"

What Readers May Rightfully Expect

The reason why people attempt to secure market news, presumably, lies in their desire for sound data concerning what has occurred, plus instruction in the relation of cause and effect, to the end that they can better forecast the future. This means more profit to them.

The circulation of misleading information does not meet these tests; hence every serious student of the market will be in accord with what Henry Clews, the well-known banker, seeks to accomplish when, in speaking of those who make it a part of their business to circulate such misleading information, says:

"Principal among these caterers are the financial news agencies and the morning Wall Street news sheet, both specially devoted to the speculative interests that centre at the Stock Exchange. The object of these agencies is a useful one; but the public have a right to expect that when they subscribe for information upon which immense transactions may be undertaken, the utmost caution, scrutiny and fidelity should be exercised in the procurement and publication of the news. Anything that falls short of this is something worse than bad service and bad faith with subscribers; it is dishonest, and mischievous. And yet it cannot be denied that much of the so-called news that reaches the public through these instrumentalities must come under this condemnation.

"The 'points,' the 'puffs,' the alarms and the canards, put out expressly to deceive and mislead, find a wide circulation through these mediums, with an ease which admits of no possible justification. How far these lapses are due to the haste inseparable from the compilation of news of such a character, how far

to a lack of proper sifting and caution, and how far to less culpable reasons, I do not pretend to decide; but this will be admitted by every observer, that the circulation of pseudo news is the frequent cause of incalculable losses.

"Nor is it alone in the matter of circulating false information that these news venders are at fault. The habit of retailing 'points' in the interest of cliques, the volunteering of advice as to what people should buy and what they should sell, the strong speculative bias that runs through their editorial opinions, appear to most people a revolting abuse of the true functions of journalism."

The Financial Writer's Difficulty

These are statements made by Mr. Clews. They may or may not be representative. There are others who go further than Mr. Clews and charge that newspapers are "owned" by Wall Street interests; that manipulators secure their write-ups by giving financial writers either calls upon the stock they are trying to boom or more direct bribes; while others, still more pronounced in their views, say that newspapers and the financial press in general are nothing but parts of a "skin game".

It is well to remain conservative about this, since biased views are not profitable, whichever side they are on. The problem of news gathering accordingly may come in for examination. Consider the situation of the reporter, trying to gather news.

The never-ending gossip of chair warmers is easy to get, but valueless; it represents shallow opinion with no money behind it. Yet opinions which really count are never easy to obtain since they represent to their fortunate possessor assets with which he can profit. Due to the fact that men of means and superior foresight can, by keeping silent, shift their holdings so that losses otherwise theirs fall upon the unwary and thereby free their capital for the bargain prices which later appear, they are not anxious to take the public into their confidence.

"Do it first and tell about it afterwards," was Commodore

Vanderbilt's reply to a friend who inquired of him what was the secret of success in business. "Never say 'cat' until you have him in the bag," was Jay Gould's motto. "He never lets the left hand know what the right hand does," explained Mr. Gould's partner, Morosini. The late J. Pierpont Morgan practically never was interviewed until in 1901 when, with reams of securities to market, he saw the light, and arranged that a representative of the Associated Press might see him every day, if necessary. Edward H. Harriman saw no reporters at all — unless he wanted to make use of them. Vanderlip, Schwab, George Gould, J. P. Morgan, Jacob Schiff, John D. Rockefeller, Jr., and Judge Gary, to mention a few present day leaders, are approachable, but "busy" and likely to have "nothing to say".

"Influence"

What is the journalist to do? He recognizes that opinions worth while must be fished for through hooks and crooks which skilled journalists use everywhere. Woodlock in writing of Reilly expressed the usual methods pretty clearly when he said: "Gradually he built up a circle of friends in the great 'news centers' of the Street — men who in some cases would talk to Reilly and to no one else, and who sent for him when they had anything to say. They liked and trusted the modest, rather diffident, and quiet spoken man who was so careful in what he said and wrote and who was evidently so trustable."

The journalist who has proved himself "satisfactory" can secure the information his paper wants — when it is information the powers that be want loosed to the public.

While sponsors of some wild-cat flotation on the Curb are ready with bribes in the form of stocks and money, but preferably stocks, neither the big men of the Street or its leading journalists stoop to such practices. With them it is simply a matter of "influence". The newspaper men are cultivated by the financiers as they are by the political leaders; they are recognized as persons of some power in relation to plans under way, and they are desired as friends, not enemies.

Why Papers are Bullish

What is the nature of the information which the journalist secures from the more important men of the Street? Of course there are accounts of new flotations, election of directors, dividends, receiverships, etc., which are merely matters of fact; but when it comes to interpretation, to view-point, interview after interview year after year usually states when boiled down nothing more than what the late J. Pierpont Morgan once said years ago:

"One thing my father said I shall always remember:

" 'Don't discount the future of America.

" 'There may be times when things are dark and cloudy; when uncertainty will cause some to distrust and others to think there is too much development, too much production, too much building of railroads, and too much development in other enterprises. In such times, and at all times, remember that the great growth of this vast country will take care of all.'

"Said he, 'Any man who is bear on the future on this country will go broke'."

The financiers of Wall Street, in general, talk when they have something encouraging to say; otherwise they remain silent. Why is this?

Financiers always have a supply of securities on hand.

Securities are made to sell.

What sales manager would dry up his own market? What salesman talks down his own wares?

What the Public Wants

There are other reasons, however, for the newspaper's bullishness.

The vast majority of the public who appear in Wall Street are by nature optimistic, one could say almost pathetically hopeful. Human nature prefers the bright side of things and tends to ignore or underrate the shadows, thus creating the somewhat lop-sided view of things which the average man holds. He has been accustomed as a business man to buy at a certain

price and sell at an advance, never to sell at the advance first and buy later at a lower price. Short selling is to him a closed book.

His first deals were, of course, on the long side and his first profits due to an advance.

His attitude towards securities is that of ownership, which sense of ownership naturally causes him to rejoice over the corporation's good tidings and sorrow over its misfortunes. Practically as partners to him are those who predict prosperity for this company, and enemies, from whom his company needs protection, are those who forecast its decline, possibly its bankruptcy.

Consequently, the public as newspaper readers warm toward the paper which presents matters in the hopeful, bullish way they themselves believe; and they resent, and will not tolerate with patience, papers which feature bearish news, with suggestions of calamity. The newspapers see to it that their readers get what they want.

Why are newspapers predominantly bullish? Consider their pages from the standpoint of supply and demand. *Supply:* Bull interviews and news items in abundance, almost all the time, bear ammunition much less easily secured. *Demand:* Bull articles and predictions read with eager pleasure, bear predictions resented and bear news left unread.

The Broker

Market letters sent out by brokers have been mentioned as a channel of news. These letters plus the personal contact with customers and newspaper reporters which the broker enjoys, render brokers an important influence in shaping market opinion and in directing actual sales and purchases.

The broker essentially is only the *agent* who executes his customers' orders. He is not responsible for the success or non-success of the trades which his customers make, and he usually has no special means of determining the market trend, or the value of a particular security, that are not also available to his clients.

But he has the advantage of being there all the time. The information which his clients have to go out of their way to find, comes to his desk as a matter of routine. He has seen most kinds of information before, many times, and can estimate with some degree of accuracy what its effect will be on the market. But he is not omniscient, and does not, or should not pretend to be. By reason of personal contact with the management or large stockholders of one or two companies he may have real "inside" information on these, but this information is his as a confidential agent and cannot be used for the benefit of other clients. Therefore it is well to remember that the broker's opinion on most stocks, and on the general market, is no better than that of similarly experienced persons who secure all the information available.

As to asking a broker's opinion, do so by all means if you wish, but if he is the right kind of a broker he will place all the facts he has before you, and tell you what he has heard, and steer as far away from giving a definite opinion as possible. The bigger the customer the less the broker will be inclined to give advice.

And the reason for this is fairly clear. The broker does not know, unless you tell him, what you know about a company, and in eight cases out of ten he knows so little except from hearsay, that he may safely assume that you know more. It is not safe to assume that a man about to take on a contract involving from $1,000 to perhaps $1,000,000 does not know what he is doing.

Brokers' Market Letters

Brokers' letters are many and varied in character. Some are always bullish; some predict only tomorrow's market; some next week's; some next year's. As a rule letters confined to the immediate future are mere business getters. As there are only two ways for the market to go these business getters have an even chance of being right. Those which try to foresee the broad movements in the market are not in this class. They do

not try to drive customers in today and out tomorrow, but assemble, generally through an able analyst, the facts and probable happenings, and deduce conclusions as to the general trend of security prices over a long period. Such letters cannot always be right, but they are usually much sounder than the first class referred to.

The broker wants his customers to be successful. Each gain means new trades, perhaps on a larger scale, and he would ask nothing better than to have all his odd lot traders prosper to the point where they could swing a thousand shares. Therefore he will give his clients who ask for it the best advice he has. It may be good, but it is not to be considered infallible.

The Tipster

Not a little of the information which passes around in Wall Street consists of suggestions to buy or sell something, the reasons for such advice not being entirely clear as a rule. These more or less illogical or "underground" suggestions are termed tips, and persons who, in a relatively sensational or insidious way, impart them with the expectation of themselves profiting thereby are termed tipsters.

The tipster operates in various ways, sometimes seeking out his prospects personally and at other times writing cheap and sensational counterfeit of the market letters issued by reputable financial houses. With respect to the sources of his information, he possibly claims to be the telegraph operator, bookkeeper, clerk, or confidential man to some noted operator whose plans he thus knows in advance; or, again, the precious news is discovered by accident; or, more commonly, he poses as a man who moves easily among the big men of the Street, to whom inside information naturally comes. However that may be, he claims to have "real inside stuff" with which he will part for a consideration.

The more lurid of the tipster sheets with which Wall Street used to be over-supplied have disappeared, due to the fact that the public has become better informed. Yet sheets still surprisingly bad are occasionally placed by even well-known

brokerage firms upon the tables in their customers' rooms. The tipster whose sheet often is thus displayed, upon one occasion explained his principles, which serves as a commentary both upon himself and upon the houses who offer his tips to their customers for guidance:

"Men crowd into Wall Street to gamble," he announced with characteristic brazenness, "and you can depend upon me to see they get their fill. I load them up, jolly them along, and when the crash comes and they lose, I pass the buck by laying the blame upon the bears.

"Of course, I don't know what the market is going to do, any more than the public does. But I am always positive, strongly bullish, and give them the best run I can for their money."

It would be a pleasure to announce that this cheerful artificer was now without a following, but unfortunately, his sheet, mimeographed in deep black but otherwise most rosy, is still in evidence.

Newspapers' Retail Tips

Financial journalists connected with papers of the better type would deny to a man they were tipsters. They are not, in the usual sense of the term, since they have no direct financial interest in what the reader buys and sells. Nevertheless, their writings very often throw a twist into the reader's mind whose effect is not unlike that of the tip.

The journalist seats himself to write the day's news. Steel has declared its regular preferred dividend, Brooklyn Rapid Transit is in the market for funds, the Union Pacific statement is out, Congress has under discussion a new tax measure, etc.

These are facts, but what staleness to the writer! Can he, by reciting these, crowd his columns with the "pep" demanded by his chief, the financial editor?

With visions of getting his salary raised from $40 to $50 per week he writes: "Anaconda was sold freely by the shorts, as was Utah, which declined a full two points. The attack likely will continue since the big interests stand aloof and the bear pool

said to be formed in coppers comprises the most powerful operators in the Street. The rest of the market withstood the selling of the coppers well, in fact Steel after all the pounding of the copper crowd closed one-eighth higher than yesterday. When the shorts in the coppers try to cover, a buoyant market can be expected. Large operators openly predicted higher prices before the end of the week."

The reader that night looks over the day's quotations and then turns to the news items and editorials; he is ready to do a little market planning. "ANACONDA ATTACKED BY SHORTS, WILL GO LOWER!"

This is his favorite stock and he is loaded with it on a ten point margin. "Anaconda off a point and three-quarters — *will go lower.*" This ominous thought haunts him through the night. The next morning he orders the broker to sell his Anaconda at the market, and switches into Steel. That very day Anaconda goes up two points and Steel simply marks time. His faith somewhat shaken in the all sufficiency of one paper, he brings home a second journal. He learns from Oracle No. 2 that: "Under vigorous buying the big interests asserted their faith in the copper situation by bidding up prices. Practically every copper stock scored a good advance. Under cover of this upturn in the coppers, which is well founded, the steels were fed out to all takers. The coming statement of U. S. Steel and Republic likely will leave much to be desired, and the interests were thinking of these things when they sold today."

When in reading his paper one comes across statements similar to the foregoing, he needs to be on his guard, with questions: Has the writer really hunted up every buyer and seller, and found out how much and why he bought and sold? Are the big interests and operators, as it appears to be implied, in the habit of consulting this newspaper oracle every move they make?

The newspaper's financial page as a day-to-day record of what transpires serves an excellent purpose. But should its writers essay the role of prophet they may in reality play only the tipster's part.

Information Which Yields Profit

Market information, as it now has been surveyed, contains in some instances most deceptive elements. Yet even so, this should not obscure the more important fact, that dependable information in an abundance which commonly remains unappreciated, also is available.

There are Wall Street leaders keenly appreciative of their position in finance, whose utterances are as sound as trained foresight can make them, and who will not stoop to deceive.

There are newspapers, magazines, and statistical manuals whose earnest search for facts, and facts only, remains unquestioned.

There are writers of market letters whose conscientious study, expert knowledge, and sincerity of purpose render their advice almost invaluable to the less experienced.

There are brokers whose service is prompt, accurate, honest, and, judged by all tests which customers reasonably can propose, efficient.

These are at present all too few but their number will increase if subscribers patronize them and ignore the other kind. Wall Street supplies what the majority calls for.

CHAPTER V

CHARTS

Needed, a Bird's-Eye View

What has been said in the preceding chapter indicates that, since items of information both correct and deceptive issue from Wall Street's news hopper, *discrimination* is essential. But discrimination requires time, and hence the very fullness of the market information which one may have leaves him very probably somewhat appalled. He cannot keep abreast of it, somehow, and has the uneasy feeling that after all he is making of himself a pack horse, instead of an alert, well-informed man.

The few prices which at first are all that particularly interests the average person can easily be remembered. Then his interest in other issues develops and he also begins to see that other data, such as money rates, unfilled orders, the action of the market as a whole, etc., needs to be included in his list of worth-while information. Finally, if he pursues the matter systematically, he comes to the same point we have reached in this Text: How can I get into most usable form my market information?

The Use of Graphics

What a person really seeks when he raises the foregoing question is a bird's-eye view of the market, its forces and the action of individual stocks.

This bird's-eye view is secured through the use of graphics.

There has been a great deal said both pro and con on graphs or charts, which indicates that the majority of those interested in the market feel the need of some such advice. Notwithstanding the considerable discussion, however, misapprehension exists concerning the actual use — and abuse — of charts. In this and later Texts the attempt is made to clear away this

misapprehension and show clearly how charts can serve one in formulating his market opinions.

The immediate problem shapes itself in this way:

The forces which make prices comprise numerous items;

Information bearing upon these items is available in considerable detail;

This information can be grouped roughly into: (a) fundamental statistics, (b) stock market averages, and (c) data on individual stocks;

Charts assist in bringing much of this information to the mind with speed and accuracy.

Fundamentals Charted

Fundamentals comprise items such as money rates, bank clearings, commodity prices, business failures, etc. The sources of these data and the channels of distribution have been described.

The line chart is the usual means of presenting this information. Cross section paper is used. At the left, the scale decided upon is shown — so many shares, dollars, tons, etc., to the square vertically. Dates are shown from left to right at the top — so many days, weeks, months, etc., to each square horizontally.

Dots are placed upon the chart at the proper distance up from the bottom according to amounts and at the same time the proper distance out from the left according to date. These dots are then connected with a line, which gives us a line chart.

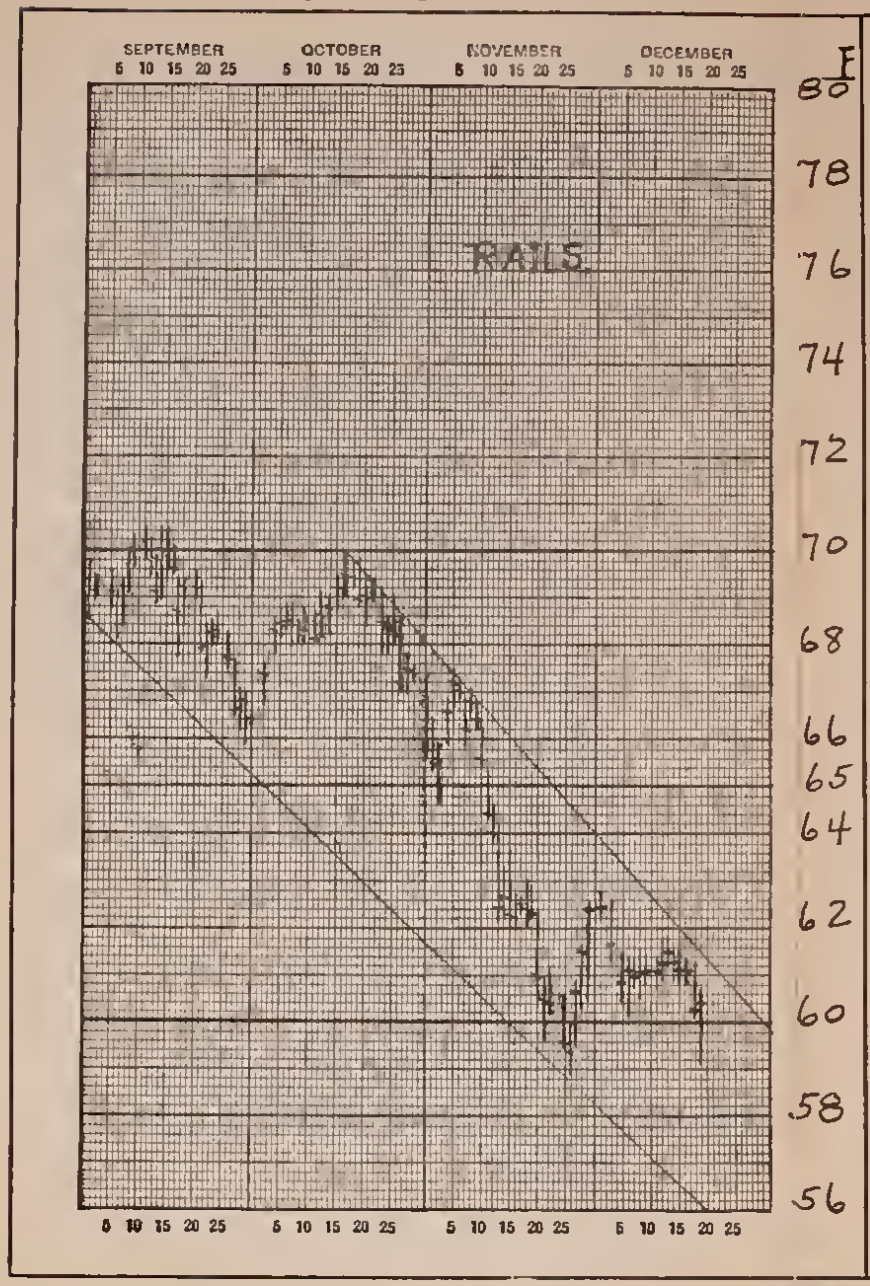
These line charts have been used so frequently in the Texts that it does not appear necessary to reproduce one here as an illustration.

Stock-Market Averages Charted

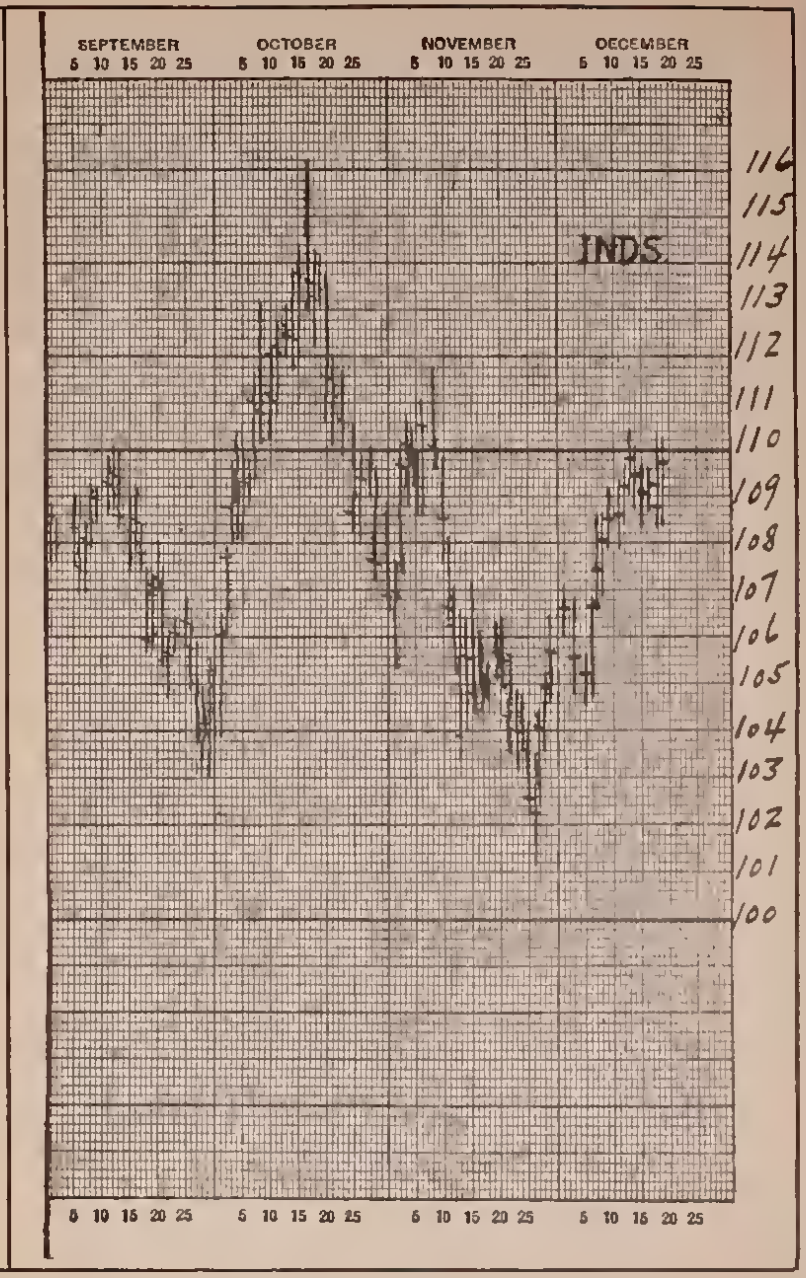
The action of the market as a whole concerns persons interested in securities directly and others who find the record of security prices a good barometer for their own business. Yet information upon this point is rather difficult to draw at first hand from the tables of daily transactions, in which over a hundred issues are quoted. The stock-market averages, however,

CHARTS OF VALUE

Daily "Average" Movement



High, Low, and Closing



enable one rather easily to get a grip upon what the market as a whole is doing.

The averages compiled daily by the *New York Times* are excellent. They comprise three sets of data: (1) an average of twenty-five rails; (2) an average of twenty-five industrials; and (3) an average of fifty stocks, which is made of the preceding two.

The chief deficiency of the *Times* averages is that they run back only to January, 1911. Since it is at times most desirable to deal with periods prior to that date, the Dow-Jones averages are cited. These have been compiled since 1897.

The use of these stock averages in determining the trend of the market, and hence the right time to buy or sell, is a study in itself. When correctly interpreted, these averages serve a useful purpose.

Charts of the "Average" Movements

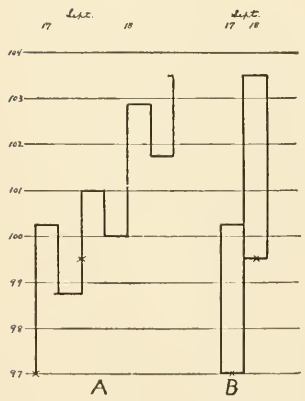
In order that clients who wish to, may fully appreciate and follow the technical action of the market, not, be it understood, from the standpoint of day to day trading, but from the standpoint of having a picture before them of just what is going on in the market, we give on an insert herewith, charts of the daily "average" movement of the market.

These charts cover a period of some three and a half months. They should be sufficient to give an idea of what charting such pictures of the market will show, As can be seen, one chart is the "average" of the rails, the other the industrials. Averages used are those of the *New York Times* — 25 rails and 25 industrials. The vertical lines picture the daily high and low of this "average" movement, the horizontal line across the vertical line denotes the closing prices. For example, the last day charted is Tuesday, December 19th, 1922. On that day the high of the 25 rails was 60.68 — low 59.09 — closing 60.53. On the 25 industrials, the high was 110.30 — low 108.56 — closing 109.76. A valuable addition to such a chart would be a scale of daily volumes, for the entire market, placed at the bottom of the chart, through the use of vertical lines.

The use of such charts must be broad, not narrow. *In themselves alone they are far from showing how to make money in the market.* Yet, a picture of the market is certainly valuable. It seems to us that the greatest value that can be obtained from the use of charts is indicated by the action of these two charts in October. In that month, the average of industrials went materially higher than in September. The average of the rails refused to follow, indicating clearly quite a difference in the character of the buying, as previously, since the summer of 1921, rails, although more moderate in movement, had either followed or led the industrials.

Individual Stocks Charted

There are two kinds of charts whose make-up should be described: line and block. Since each has its adherents who claim it superior and on account of the fact that choice should be made intelligently, it seems best to take some actual quotations and show how they are charted. This has been done in the accompanying table and figures. These two charts present identical information yet they differ radically in appearance.



A shows how these data appears on a one-point line chart, that is, a chart which shows fluctuations of one point or more. Opening at 97, the stock advanced to 98, then reacted a half point. No account would be taken of this reaction in charting, since it did not extend a full point. The line runs straight to 100¾, then, since a move in the reverse direction of over a point occurs, a jog to the right is made to avoid retracing the line and the move to 98¾ is shown. The tick may be employed to represent the closing price, and the cross the opening price. Two-point line charts, five-point line charts, etc., can be made in the same general way.

B presents the same data. The bottom of the oblong represents the low price of the day, the top the highest price, and the inside mark the opening price. This chart does not show the fluctuations so fully as does A, but it is simpler and easier to make. Incidentally, it can be prepared from the data shown in the average daily paper's financial page (a stock's opening, high and low prices), while for A a record of each transaction is required.

TRANSACTIONS IN X Y Z COMMON

Sept. 17	Sept. 18
100— 97	200— 99½
500— 97¾	100—100¼
400— 98	200—101
100— 97½	200—100
300— 98¼	300—102
400— 99	400—102⅞
200—100¼	100—101¾
100— 98¾	600—103½

The transactions which occurred on the Exchange are shown for two days.

Choice of Charts

Which of these two charts — and additional modifications of them, for that matter — are best?

The chart user when he wants to know which is best oftentimes is merely on the lookout for a mechanical method of beating the market. Wall Street, in fact, is full of chart fiends who talk learnedly, and with much cocksureness, of "double tops" and "making bottoms" in a purely "paper" way without regard to the real conditions which prevail.

Charts are no substitute for judgment.

The person who finds himself examining his charts in the covert attempt to discover a "system" which he can follow, has the cart before the horse; and he should right about face before doing anything farther in the market. The chart's true purpose is to assist, not to supplant judgment.

Which chart, then, is best? That which supplies the person who keeps it *the most accurate and quickly grasped picture of what the whole market or certain stocks have done.* In analyzing this action of the market and of a particular stock, the importance of three elements is recognized; *price, volume of transactions*, and *time;* and the block chart, since it sets these facts forth most adequately, appears upon the whole superior. Much depends, of course, upon which plan of dealing in securities the subscriber decides to follow.

In securing the numerous benefits of the graphic method and avoiding at the same time the dangers which lie in "chart read-

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ing," those who keep charts should bear in mind that persons in the market are faced with the problem of how best to get their information into shape; and that charts that picture the past vividly and accurately provide the judgment with an efficient ally.

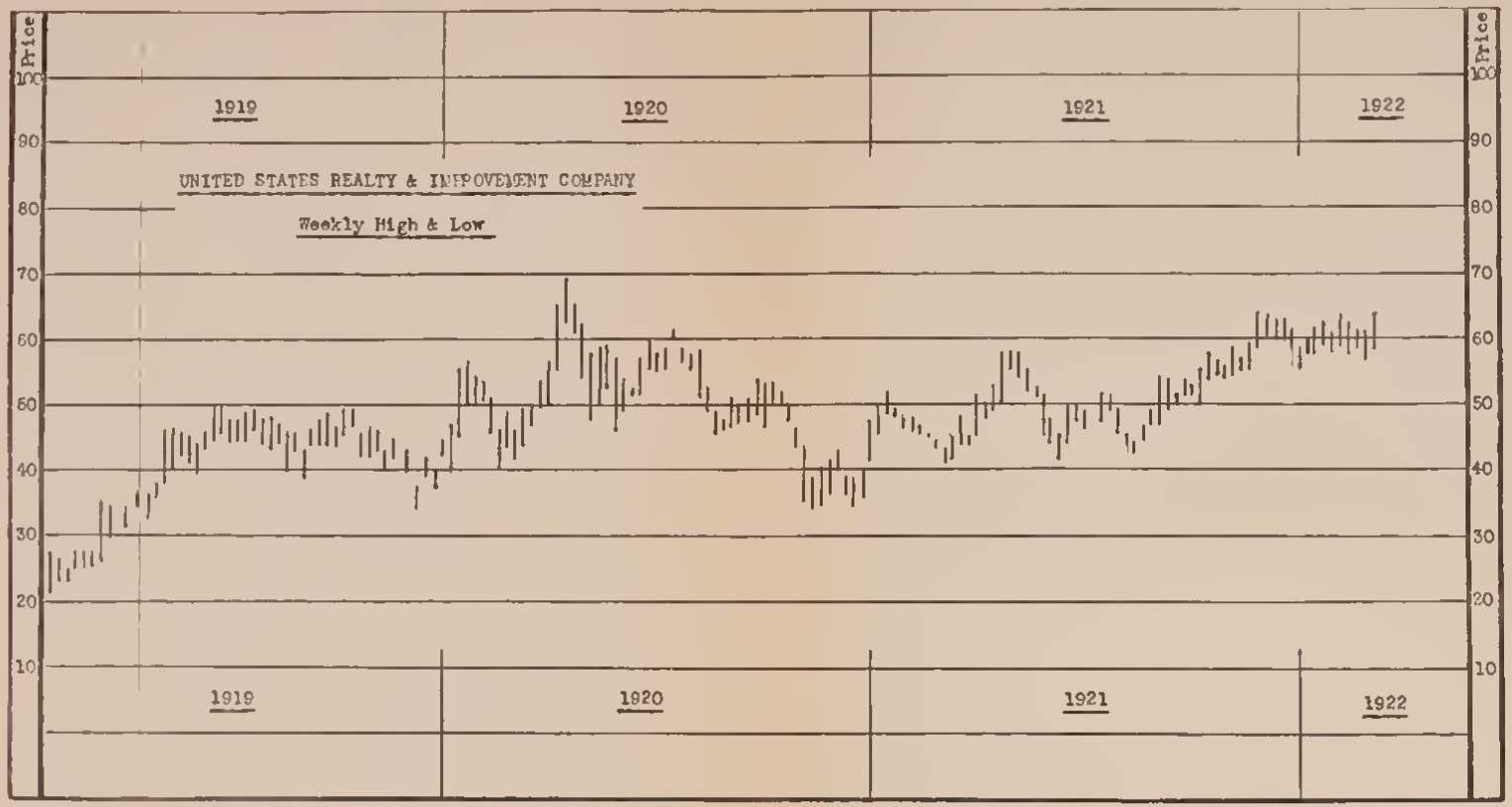
Another Type of Chart

On the insert herewith is a chart of the movements of United States Realty for the three years 1919, 1920 and 1921. Such a chart seems to us to be an easy and yet satisfactory method of following fluctuations in individual stocks. It is a weekly high and low chart, each vertical line represents one week and is drawn between the high point and the low point reached in that week. Quotations for such purposes may be obtained from the Monday morning financial pages of most metropolitan dailies.

A chart of this nature may be supplemented by a study of volumes. Volumes for the week may be compared by drawing lines to represent the amount of shares of that particular stock traded in in that particular week. Such a volume line should be placed directly underneath the line denoting the weekly price movement at the base of the chart. The value of such an addition to a chart of this character is discussed in our textbook, "The Technical Position of the Market."

This chart of United States Realty, by itself, tells us little as regards the probable future of the stock but helps materially in backing up other study. When considered with a study of the company itself, it leads to several conclusions — one that no apparent attempt has been made to distribute this stock, as evidenced by the recent small movement — another that such a stock, earning $15 to $20 a share, is considerably behind the general market movement. The general industrial average is up over twenty points since October, 1921. The chart shows that United States Realty is less than ten points higher than at that time.

As a matter of fact United States Realty sold above 90 in December, 1922. The chart was originally published in April, 1922. Thus we feel that a chart, such as we have outlined, is clearly of value. With a little time and effort, clients can carry on such charts from year to year.


Price
100
90
80
70
60
50
40
30
20
10
1919
1920
1921
1922
UNITED STATES REALTY & IMPROVEMENT COMPANY
Weekly High & Low

CHAPTER VI

WHAT SYSTEM MEANS IN FINANCE

Taking Advantage of Opportunities

The opportunities which finance presents are very real, of generous proportions, and available in one form or another at any time. It is true that risk is involved, but is this not so in any phase of business? Those who talk of financial losses, particularly Wall Street losses, must not overlook the mortality rate in business as a whole shown by Bradstreet's, with the well-known deduction that 90 per cent of those who establish themselves in business eventually fail. The only risks worth talking about are comparative risks; and upon this basis, as was shown in Text I, finance has a wealth-producing power whose showing is most excellent. Whether it be in investment, speculative investment, the transaction of business as a financial agent, or the financing of enterprises, opportunities to make money are not lacking. The problem is merely one of how best to take advantage of them.

What has been said so far in these Texts indicates clearly the conviction that in taking advantage of these opportunities a person should proceed systematically. Haphazard methods, reckless attempts to secure a profit, do not succeed in the long run, however large be the gains they temporarily may secure. Financial operations must be undertaken with discretion and pursued in accord with sound business methods. This means that four steps are essential:

1. A clear aim.
2. Carefully formulated plans.
3. Consistent execution of plans.
4. Evaluation of results.

The significance of these steps with reference to the meaning of system in finance will now be commented upon.

A Clear Aim

What am I trying to do?

This is the first question. It will not do to start with the vague idea of "making some money," which is planless and expensive and liable to land one on the rocks; there should be clear knowledge of what one is about.

Finance has opportunities for speculation, investment, speculative investment, financial agents, and the financing of enterprises. Into which group shall I place myself? Candid answer to this question strips the disguise from much of the so-called "investment" we hear about — operations in unseasoned mining stocks, pyramided accounts, "war brides," "shoe-string" margins and stocks originally bought for a "turn." Now it may be that the doing of these things, in view of a particular person's desires, abilities, situation and finances, is entirely proper; but at any rate let him not deceive himself and his friends by calling it investment. Nor will candid answer to this question fail to disclose the fact that not a few persons who, priding themselves upon their willingness to term their operations "speculation," are yet far removed from this class. When one decides that his tastes are speculative, rather than investment-like, let him consider what speculation means: Operations wherein *intelligent foresight* is employed for the purpose of deriving a profit from price changes. The two words italicized merit special attention. Harsh as it may seem, there appears abundant evidence that the great majority dealing in the securities not merely upon the Curb but also upon the Exchange are not speculators but only gamblers. The gambler takes a chance, and intelligent foresight lacking, that is what this great majority is doing. This self-deception will not persist when the question is squarely faced: Into which group shall I place myself? What am I trying to do?

Carefully Formulated Plans

How can I carry out my aim in a practical way?

This is the second question. It implies that we must not

only know what it is we wish to do but how to do it, a matter of market technique and actual concrete methods.

Factors to be considered here are: *Location.* Those who contemplate dealing in securities very commonly think they should move to New York, so as to spend their days within a stone's throw of the Exchange. However desirable this is for professionals, the rank and file, strange to say perhaps, appear to be even more successful when putting through their transactions from a distance than when enveloped in Wall Street's maze of tickers, gossip and rumors. *Sources of Information.* The type of dealings decided upon really determines the value of each of the various sources of information. The man who tries to catch minor fluctuations with Moody's Analysis of Investments as his guide has quite as unprofitable a time of it as the investor who lets the ticker cloud his judgment on the long pull. *Time Available.* Persons who devote their entire time to the market, who live, eat, and sleep in Wall Street, as is said of a certain noted plunger, can attempt profitably methods of trading which some business man, who studies the market only in his leisure time, will not find worth his while. Watching the ticker does not fit in well with executive success in the average business, and fortunately it is not at all necessary — undesirable, even, in certain types of dealing. Then there are matters of *Capital*, *Knowledge* and *Skill* which must also be considered in drawing up the plan.

This whole matter of technique and actual concrete methods is to be gone into so fully in subsequent Texts that it need not be discussed further at this point. It is an important subject which deserves treatment in detail in connection with each main type of financial operations.

Consistent Execution of Plans

Can I carry out my plans, consistently?

This is the third question. This means that once a general plan of campaign is adopted and adequate reasons for modifying it do not later develop, will power, the captain of the financier's ship, pushes it through to completion.

Those who transact business for the first time in Wall Street usually are investors and purchasers of what they consider investment issues. Later, the desire to hold stocks that "go up" in addition to returning an income induces them to turn toward speculative investment. The allurements of profits secured through changes in price develops in them a desire for speculation, with stocks carried on margin and purchased in the expectation solely that they will go up. This leads more or less rapidly, according to the severity of the case, from short-pull operating to attempts to catch the daily fluctuations, about which time we find the once staid investor has transformed himself into a high strung, plunging gambler.

Those who plan at the start to speculate in connection with secondary swings often undergo a somewhat similar experience but in reversed order. Having loaded himself comfortably with stocks, on margin as a rule, a trader possibly finds the market goes against him. Since he expected to close out his stock with a few points profit at most, he now as a trader should cut his losses promptly. Here enters a twist in reasoning. Disregarding the fact that as a trader he should retain the trader's attitude of mind, he attempts to bolster up his opinions by reference to general conditions, the earnings of stocks, etc. Perhaps general conditions are good and the stock on account of excellent earnings may in time come back. Nevertheless, his judgment at the time of making the commitment was based upon the assumption that this was a *trade*, not an investment, which proves that so far as his position is concerned he is trying to swap horses while crossing the stream. Consequently, the market may or may not come back with the result that eventually, discouraged, he closes out with a big loss or, disgusted, remains "hung up" with stock which only by miscalculation he has on his hands. Traders whose plans miscarry in this way are termed "involuntary investors." Like the poor, they are always with us.

Adequate reasons which develop after a plan has first been determined should of course, be permitted later to modify it. Yet mistakes, lack of decision, and inconstancy do not represent adequate reasons, and they must not prevent a person from pushing this plan through.

Evaluation of Results

What check have I on results?

This is the fourth question. The point here is that when profits are made a person knows how they were made and when losses occur he has a check upon them, too.

This is a matter in which the attitude of the average outsider, in his heedless enthusiasm over gains and self-deceiving attempts to ignore losses, needs seriously to be reformed if he himself is to improve and remain long and profitably in the Street.

In connection with the several parts of the Course records have been devised which, with a minimum of effort, give the subscriber the close check upon results which we think he ought to have.

Financial Management

The four steps which have just been cited — a clear aim, carefully formulated plans, consistent execution of these plans, and close check upon the results secured — mean that you, as a person engaged in financial operations, should take a critical attitude toward your work and dismiss the idea that the slow old school of experience is all that counts in money making. But they include more even than that.

The management of one's finances calls for a certain quality which the builders of American business in their oil, steel, railroad, motor, machinery and other projects have exhibited in full measure, viz., self-reliance. They knew what they were about and were convinced they could see the thing through. Does this attitude characterize the average person in finance? It does not. The vast majority do not trust their own judgment. They are hesitating, doubtful, and changeable in turn.

Would James B. Duke ever have pushed the tobacco business with such profit to himself if he had been merely a weather vane, veered by what other people thought of him and of tobacco? When an occasional country merchant declares the cash register is no good, does John H. Patterson think of closing down

his factory? Does Charles Schwab draw his ideas on how to manage Bethlehem Steel from some hanger-on in a broker's office? These men know their business. Their knowledge rests upon a firm foundation and they rely upon their own judgment. While open to advice and cultivating all sources of information, in the last analysis they depend upon themselves.

Who Directs the Enterprise?

The big profits of an enterprise go to men who direct its affairs. Yet when a man in his financial operations without self-reliance leans upon brokers, bankers, newspapers, friends and chance acquaintances, *they* and *not he* direct his enterprise. This fact in itself shows how important in the securing of profits is that sound knowledge of principles, technique and methods upon which real self-confidence is based and which enables its possessors to win a *manager's* full profit.

You should learn to depend upon yourself.

In outlining the present Course, our chief purpose has been the building up within the subscriber of sound knowledge and correct methods of analysis, the cultivation of his self-reliance and financial skill. The various features of the Course — its Texts, Assignments, Test Questions, Key Problems, and the *Investment and Speculative Bulletin* — have been planned and co-ordinated with this end in view, that the subscriber will become able to depend upon himself.

The Use of the Bulletin Service

The Investment and Speculative Bulletin Service is given you to supplement your education, to assist you in reasoning, diagnosis, and financial action, not to lead.

In speculation and investment, just as in any other business enterprise, all success must come from within — not from without. Unbiased advice is certainly valuable, but you must possess the ability to interpret such advice to your own individual situation. Advisory Bulletins of any type, whether finance, business, law, or medicine, should be used as Advice, not as Com-

mand, also to assist in checking up one's own decision, but never *simply* as a leader.

In our Bulletins it is our endeavor to set before you our views as to the best course of action for you to take in regard to both investment and speculative commitments. This information is based on as thorough a consideration of fundamental stock market, bond market, and economic factors the world over, as we can give.

Our purpose is to cover only the swings of the market that are governed by such factors. We do not attempt to predict week-to-week or month-to-month movements, except as they are in relation to the developments of these factors, as we see them.

The swings of the market over a series of years follow the general trend of these factors closely. The week-to-week swings of the market are largely the result of technical conditions on the floor of the Exchange and sometimes the result of concerted action on the part of professional traders. As a result, speculative securities can move temporarily in direct conflict to the economic trend of events. Rather than attempt to catch such movements, conservatism looking to the constant building up of one's speculative and investment funds, suggests avoiding them even at the cost of slight temporary profit.

Neither ourselves or anyone else can pretend to predict such day-to-day or week-to-week movements. We do know, however, that their main purpose is to distribute securities to the public at prices which in many cases are not justified. It is for this reason that we urge clients to avoid them. Only in this way can you be certain of having your Speculative and Investment funds in satisfactory condition so that when sound buying opportunities are at hand you will be in a position to take full advantage of them.

Two of the secrets of successful handling of money is patience and lack of greed. Each year offers one or two really sound opportunities for the profitable purchase of securities. It is the purpose of this Bulletin to have you in a position to take advantage of such opportunities as they arise.

TEST QUESTIONS

"MARKET INFORMATION"

The Test Questions which are unstarred can be answered directly from the Text discussion. You will find them helpful for purposes of review.

The Questions which are starred call for original thought, the ability to apply the knowledge gained from the Text to the solution of new problems.

1. What is the Wall Street attitude toward news?

2. A London operator testified that he had paid enormous sums in cash to keep the newspapers from attacking his ventures. What other methods do operators employ at times in securing favorable publicity, or at least not unfavorable publicity?

*3. Why do tips "straight from the inside," etc., exert such a large influence as they do?

4. Show how supply and demand, and not necessarily the deliberate intent to deceive, causes newspapers to print what often is most unreliable, and one-sided information.

*5. When Crucible Steel in 1915 had advanced from around $15 up to $45 a share, this statement from a director and member of the Executive Committee appeared upon the news ticker:

"The common stock is in the hands of people who evidently intend to hand it to others at the highest price at which it can be sold, and this evidently is the reason for the large mis-statement made about war-order contracts."

Were you to read such an item, what interpretation would you place upon it? What, likely, would be its effect upon prices?

6. How did the famous "Peace Note Leak" come about?

7 What are the chief sources of market news? The main channels through which it is disseminated?

8. What are the prospects for a higher grade, and more reliable, news in Wall Street? What can each one do personally to assist in bringing this about?

*9. "One of the customers in my broker's office never looks at papers or the news ticker. He says his charts, of which he keeps a considerable number, tell him just what to do. What is there in this Theory of "double tops" and "double bottoms"?

10. Jot down on a sheet of paper the four essentials of system in finance, and under each specify several detailed methods which you expect to employ in carrying it out.

ANSWERS TO STARRED QUESTIONS

"MARKET INFORMATION"

*3. "On the fringe of the legitimate business of buying and selling stocks and bonds," says A. Barton Hepburn, one of New York's famous bankers of the old school, "there hangs an army of promotors, gamblers and jobbers who are keen to take advantage of lack of investment knowledge. They have a system of disseminating information for the purpose of inducing speculation in certain securities which it is to their interest to promote. By means of discreetly placed 'confidential information' they can spread news over the country in a few hours. The remarkable thing about this system is the number of persons who have faith in such tips. It is true that men believe the things that they want to believe."

See also "Manipulation and Market Leadership," pages 47 and 48.

*5. This statement would be open to at least two interpretations. "This man is honest and wants to let the truth be known," or "This man would like to depress the stock so he can accumulate it."

The latter view was taken by the Wall Street Journal, which credited this director with having made a million and a half out of the stock, which he closed out at such high prices.

The stock, at that time, slumped badly.

*9. Charts serve a very useful purpose, and we would not draw an arbitrary line limiting their service. At the same time, dependence upon charts alone, believing that they tell one "just what to do" that when stock makes "double tops" it should be sold and "double bottoms" it should be bought, represents what we term "chart reading," a poor use of charts, which in the long run is almost certain to result in loss.

Use charts to assist, not to replace, judgment.

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